

Application of Sales and Use Taxes to Vessels

PURPOSE: This Special Notice explains legislation that exempts the sales of vessels to nonresident individuals from sales and use taxes and describes the procedures for nonresident individuals to purchase vessels tax exempt.

This Special Notice also describes the phaseout of sales and use taxes on repair and maintenance services to vessels and discusses legislation that exempts labor to existing vessels from sales and use taxes.

For purposes of the statutes and regulations discussed in this Special Notice, *vessel* is defined in Conn. Gen. Stat. §15-127 to mean every description of watercraft other than a seaplane on water, used or capable of being used as a means of transportation on water.

EFFECTIVE DATE: Effective for sales occurring on or after July 1, 1999.

STATUTORY AUTHORITY: Conn. Gen. Stat. §12-412(60), as amended by 1999 Conn. Pub. Acts 173, §21; Conn. Gen. Stat. §12-408(1), as amended by 1999 Conn. Pub. Acts 173, §13 and 1996 Conn. Pub. Acts 232, §1; Conn. Gen. Stat. §12-407(24); Conn. Gen. Stat. §15-127; Conn. Gen. Stat. §12-407(2)(i)(S); and Conn. Agencies Regs. §§12-407(2)(i)(S)-1 and 12-407(2)(i)(DD)-1.

BACKGROUND: Sales of Vessels to Nonresidents. Before July 1, 1999, sales of vessels by Connecticut retailers to nonresident individuals were subject to sales and use taxes at the lesser of 6% or the state sales tax rate in the purchaser's state of residence. Effective July 1, 1999, under Conn. Gen. Stat. §12-412(60), sales of vessels to nonresidents who do not maintain permanent places of abode in Connecticut and who will not register the vessels with the Connecticut Department of Motor Vehicles are exempt from tax.

Repair and Maintenance Services to Vessels. The tax rate for repair and maintenance services to vessels was phased out over a two-year period. (*See the table on Page 2.*) Materials, supplies, and parts for vessels remain subject to 6% tax.

Labor Performed to Vessels. Fabrication labor to an existing vessel was subject to 6% tax prior to July 1, 1999. Fabrication labor to an existing vessel is exempt from tax effective July 1, 1999. The charge for fabrication labor to a vessel must be separately itemized on the bill from the charge for materials, supplies, and parts. Materials, supplies, and parts remain subject to 6% tax.

SALES OF VESSELS:

Sales to Residents. Sales of vessels to Connecticut residents are subject to 6% tax. Conn. Gen. Stat. §12-430(4) provides a trade-in credit for a vessel that is traded in to a retailer of vessels toward the purchase of another vessel. The tax is computed on the difference between the sales price of the vessel being purchased and the trade-in amount allowed on the vessel purchased. The trade-in must occur at the same time as the sale and purchase.

Sales to Nonresidents. Sales of vessels to nonresidents are exempt from tax under Conn. Gen. Stat. §12-412(60), if:

1. The nonresident does not maintain a permanent place of abode in Connecticut;
2. The vessel is not registered with the Connecticut Department of Motor Vehicles; and
3. The nonresident gives the retailer **CERT-125, Sales and Use Tax Exemption for a Motor Vehicle or Vessel Purchased by a Nonresident of Connecticut**.

This exemption applies to individuals and to corporations, partnerships, and other business entities, if the individual or business entity meets each of the requirements stated above.

Nonresident means a resident of another state or a foreign country who does not maintain a permanent place of abode in Connecticut.

Permanent Place of Abode means a dwelling place (a building or structure where a person can live) permanently maintained by an individual (whether or not the individual permanently resides there), whether or not owned by or leased to the individual, and generally includes a dwelling place owned by or leased to his or her spouse. The place of abode need not be the individual's legal or primary residence.

A partnership, corporation, or other business entity may qualify for this exemption only if:

- The entity maintains no Connecticut situs and owns no fixed assets located in this state, and
- No partner, officer, or member of the entity, and no operator of the vessel, maintains a permanent place of abode in Connecticut.

VESSEL BROKERS: Vessel broker services are taxable sales agent services under Conn. Gen. Stat. §12-407(2)(i)(S) if rendered to the seller of the vessel. A commission that a seller of a vessel pays to a broker for locating a buyer is subject to 6% tax when the sale of the vessel actually results and the title to the vessel transfers in Connecticut. Vessel broker commissions paid by purchasers are not taxable.

REPAIR AND MAINTENANCE SERVICES TO VESSELS: Repair and maintenance services to vessels are exempt from tax as of July 1, 1999. The tax rate on repair and maintenance services to vessels was phased out over a two-year period as follows:

on or after	through	rate
July 1, 1997	June 30, 1998	4%
July 1, 1998	June 30, 1999	2%
July 1, 1999		0%

Providers of repair and maintenance services must separately state charges for repair and maintenance services from charges for integral parts on the bill to the customer. The sales of integral parts are subject to 6% tax. Any additional fees, such as hourly or flat rates, minimum charges or mileage charges, are charges for repair and maintenance services and are not taxable.

Repair Services mean mending or bringing back to working order or operating condition a vessel that is broken, damaged, malfunctioning or defective. Repair services include repair work on any part of a vessel, even if performed in a separate location from the vessel itself. Repair services to vessels include but are not limited to repairs to sails, sail covers, boat awnings, masts, inboard motors, and outboard motors.

Maintenance Services mean sustaining or maintaining safe, efficient or continuous operation of a vessel, or keeping a vessel in good working order. Maintenance services include maintenance work on any part of a vessel, even if performed in a separate location from the vessel itself. Maintenance services to vessels include but are not limited to services such as shrink wrapping, washing, painting, staining, varnishing, and polishing vessels.

Integral Part means a part such as a mast, motor, motor part, or gauge that retains its separate identity even after being incorporated into the vessel undergoing repair or maintenance. The term integral part does not include a material such as lubricant, stain, paint, varnish, polish, wire, solder or glue that does not retain its separate identity after repair or maintenance services to the vessel.

REPAIR AND MAINTENANCE SERVICE PROVIDERS:

Documentation for the Repair and Maintenance Services Exemption. Boat yards, marine dealers, and other businesses that repair vessels on a routine or ongoing basis are not required to obtain documentation from their customers to prove that their repair and maintenance services are performed to vessels.

However, businesses that do not specialize in vessel repairs should obtain a copy of their customer's vessel registration to prove that the item being repaired is part of a vessel. The copy of the vessel registration should be attached to a copy of the customer's bill or invoice and retained with the service provider's records. For example, if a customer brings a radio or radar equipment used on a vessel to a repairer that does not specialize in vessel repairs, a copy of the vessel registration is sufficient documentation to support the exemption for repair and maintenance services to vessels.

Purchases Made with Resale Certificates. The provider of repair or maintenance services may purchase integral parts without payment of tax by issuing a resale certificate to the supplier. The

service provider must pay 6% tax on purchases of materials and supplies that are not integral parts used in providing repair or maintenance services, because they are the consumers of these items. See the definition of *Integral Part*, page 2.

BOAT TRAILERS: Boat trailers are not vessels under the definition in Conn. Gen. Stat. §15-127. Sales of boat trailers to nonresidents are not exempt under Conn. Gen. Stat. §12-412(60). Repair and maintenance services to boat trailers are subject to 6% tax. The sale of integral parts for boat trailers is also subject to 6% tax.

VESSEL MAINTENANCE, REPAIR, AND WARRANTY CONTRACTS: Maintenance, repair, and warranty contracts that are purchased for vessels or vessel parts such as motors, radios, and radar are not subject to tax. A maintenance, repair or warranty contract for a vessel is not taxable regardless of whether it is sold at the same time as the vessel or after the vessel to which it relates is sold.

Materials, supplies, and parts used to fulfill maintenance, repair, and warranty contracts are subject to 6% tax. The service provider of a maintenance, repair or warranty contract for a vessel is usually the final consumer of parts, materials, and supplies used to fulfill these contracts and should pay tax on these purchases. In the event that a service provider purchases integral parts used to service these contracts without payment of tax by using a resale certificate, the service provider must charge sales tax on the charge for the integral parts to the customer.

Any additional charge for integral parts that a customer is required to pay under the terms of a maintenance, repair, or warranty contract to service a vessel is taxable. However, any additional charge for repair or maintenance services performed on a vessel that a customer is required to pay under the terms of a maintenance, repair, or warranty contract is not taxable.

Maintenance Contract means a contract for maintenance service to be performed to a vessel in the future.

Repair Contract means a contract for repair services to be performed to a vessel that is broken, damaged, defective, or malfunctioning when the parties enter into the contract.

Warranty Contract means a contract for repair services to a vessel only if the vessel malfunctions in the future.

LABOR TO VESSELS: Fabrication labor to existing vessels is no longer subject to tax as of July 1, 1999.

Fabrication Labor means labor to customize an existing vessel or assemble components onto an existing vessel for a customer who furnishes, either directly or indirectly, the materials for the vessel. Fabrication labor also means labor to customize an existing vessel or assemble components onto an existing vessel when the fabricator also sells the materials that are used to fabricate the vessel to the customer. **Existing vessel** means a vessel owned by the customer before the labor is performed to it.

The sales of materials, supplies, and parts in connection with fabrication labor remain subject to 6% tax. Charges for fabrication labor to existing vessels are exempt from tax if the charges for materials, supplies, and parts are separately stated from the labor charges on the bill or invoice to the customer. If the charge for materials, supplies, and parts is not separately stated from the charge for fabrication labor to the existing vessel, the total charge on the bill or invoice to the customer is presumed to be subject to tax.

EFFECT ON OTHER DOCUMENTS: **CERT-107, Rate Reduction Certificate — Vessel Purchased From A Connecticut Retailer Within The State Of Connecticut By A Resident Of Another State**, is obsolete and must not be used for purchases of vessels made in Connecticut by nonresidents on or after July 1, 1999. **Special Notice 2000 (2)** modifies **Policy Statement 94(2), Maintenance, Repair and Warranty Contracts**. **Affidavit-16a-5, Vessel Purchased Out-Of-State from Connecticut Retailer**, remains a valid document for vessels purchased outside Connecticut from Connecticut retailers.

EFFECT OF THIS DOCUMENT : A Special Notice is a document that announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates the Department's informal interpretation of Connecticut tax law and may be referred to for general guidance by taxpayers or tax practitioners.

FOR FURTHER INFORMATION: Please call the Department of Revenue Services during business hours, 8:00 a.m. to 5:00 p.m., Monday through Friday:

- **1-800-382-9463** (toll-free within Connecticut), or
- **860-297-5962** (from anywhere).

TTY, TDD, and Text Telephone users only may transmit inquiries 24 hours a day by calling 860-297-4911.

FORMS AND PUBLICATIONS: Forms and publications are available all day, seven days a week:

- **Internet:** preview and download forms and publications from the DRS Web site: **www.drs.state.ct.us**
- **DRS TAX-FAX:** call **860-297-5698** from the handset attached to your fax machine and select from the menu
- **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (toll-free within Connecticut) and select **Option 2** from a touch-tone phone

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